

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-017
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Harvey Hunter, CPA

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#08-017

21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1
Financial Statements.....	3
Notes to the Financial Statements	6
Report Distribution	11



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Don Farnesi President
Board of Directors
21-A DAA, Madera District Fair
1850 West Cleveland Avenue
Madera, California 93637

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 21-A District Agricultural Association (DAA), Madera District Fair, Madera, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 21-A DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

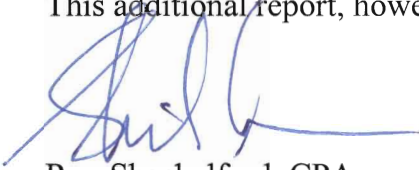
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 21-A DAA, Madera District Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 21-A DAA, Madera District Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-017, on the 21-A DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 21-A DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in blue ink, appearing to read 'Ron Shackelford', is written over a light blue rectangular background.

Ron Shackelford, CPA
Chief, Audit Office

For

May 29, 2008

**21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

	Account Number	2007	2006
ASSETS			
Cash in Bank	111 - 118	\$ 843,194	\$ 876,230
Accounts Receivable, Net	131	331,804	60,071
Deferred Charges	143	3,469	3,949
Construction in Progress	190	248,120	59,185
Land	191	45,297	45,297
Buildings and Improvements, Net	192	1,144,823	1,203,950
Equipment, Net	193	24,849	23,098
TOTAL ASSETS		<u>2,641,555</u>	<u>2,271,780</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Insurance Fees Collected	211	91	91
Accounts Payable	212	55,494	21,992
Other Payables	221 - 226	374	878
Deferred Income	228	206,102	40,696
Guaranteed Deposit	241	9,494	9,622
Compensated Absences Liability	245	54,770	51,189
Long-Term Debt	250	5,497	8,786
Total Liabilities		<u>331,822</u>	<u>133,255</u>
Net Resources			
Reserve for Junior Livestock Auction	251	9,278	8,307
Net Resources - Operations	291	842,864	807,475
Net Resources - Capital Assets, less related debt	291.1	1,457,591	1,322,744
Total Net Resources Available		<u>2,309,733</u>	<u>2,138,525</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 2,641,555</u>	<u>\$ 2,271,780</u>

**21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006**

	Account Number	2007	2006
REVENUE			
State Allocation	312	\$ 124,000	\$ 124,000
Capital Project Reimbursements	319	11,046	58,825
Contributions from Other Sources	330	-	39,090
Other Revenue	340	32,906	40,273
Admissions	410	247,595	268,645
Commercial Space	415	35,925	34,900
Carnival	421	121,170	117,423
Concessions	422	90,972	81,893
Exhibits	430	11,088	10,762
Attractions - Fairtime	460	42,725	45,598
Miscellaneous Fair	470	173,308	88,865
JLA Revenue	476	51,024	50,293
Non-Fair Revenue	480	599,050	588,037
Prior Year Adjustment	490	1,474	(1,256)
Other Operating Revenue	495	39,553	34,133
Total Revenue		<u>1,581,837</u>	<u>1,581,482</u>
EXPENSES			
Administration	500	326,586	319,035
Maintenance and Operations	520	415,454	411,513
Publicity	540	99,727	66,479
Attendance	560	49,093	45,442
Miscellaneous Fair	570	15,149	15,712
JLA Expense	576	50,053	46,991
Premiums	580	21,419	20,900
Exhibits	630	27,176	26,911
Attractions - Fairtime	660	294,093	288,112
Prior Year Adjustments	800	(1,524)	3,030
Cash Over/Short from Ticket Sales	850	269	343
Depreciation Expense	900	72,922	75,135
Other Capital Expenditures, Reimbursable	945	40,213	40,273
Total Expenses		<u>1,410,629</u>	<u>1,359,877</u>
RESOURCES			
Net Change - Income / (Loss)		171,208	221,605
Resources Available, January 1		2,138,525	1,916,920
Resources Available, December 31		<u>\$ 2,309,733</u>	<u>\$ 2,138,525</u>

**21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 171,208	\$ 221,605
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(271,732)	(36,382)
(Increase) Decrease in Deferred Charges	480	(2,434)
Increase (Decrease) in Insurance Fees Collected	-	(345)
Increase (Decrease) in Accounts Payable	33,502	6,326
Increase (Decrease) in Payroll Taxes Payable	(504)	(166)
Increase (Decrease) in Deferred Income	165,406	5,403
Increase (Decrease) in Guaranteed Deposits	(128)	1,457
Increase (Decrease) in Compensated Absence Liability	3,581	5,887
Total Adjustments	<u>(69,396)</u>	<u>(20,254)</u>
Net Cash Provided (Used) by Operating Activities	<u>101,812</u>	<u>201,351</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction-in-Progress	(188,935)	(22,019)
(Increase) Decrease in Buildings & Improvements, Net	59,127	(92,206)
(Increase) Decrease in Equipment, Ne	<u>(1,751)</u>	<u>(14,801)</u>
Net Cash Provided (Used) by Investing Activities	<u>(131,559)</u>	<u>(129,025)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Debt	<u>(3,289)</u>	<u>8,786</u>
Net Cash Provided (Used) by Financing Activities	<u>(3,289)</u>	<u>8,786</u>
NET INCREASE (DECREASE) IN CASH	(33,036)	81,112
Cash at Beginning of Year	876,230	795,118
CASH AT END OF YEAR	<u><u>\$ 843,194</u></u>	<u><u>\$ 876,230</u></u>

**21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 21-A District Agricultural Association (DAA) was formed on August 5, 1937, for the purpose of sponsoring, managing, and conducting the Madera District County Fair each year in Madera, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax on all DAA sales of merchandise. The DAA collects sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA's accounting

policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 100	\$ 100
Cash in Bank - Operating	114,045	108,302
Cash in Bank - Payroll	536	313
Cash in Bank - JLA	12,272	19,938
Cash in Bank – LAIF	<u>716,241</u>	<u>747,577</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 843,194</u></u>	 <u><u>\$ 876,230</u></u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - General	\$ 72,348	\$ 60,616
Accounts Receivable - Sponsorship	260,000	0
Allowance for Doubtful Accounts	<u>544</u>	<u>545</u>
 Accounts Receivable - Net	 <u><u>\$ 331,804</u></u>	 <u><u>\$ 60,071</u></u>

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$2,771,927	\$2,771,927
Less: Accumulated Depreciation	<u>(1,627,104)</u>	<u>(1,567,977)</u>
Building & Improvements - Net	<u><u>\$1,144,823</u></u>	<u><u>\$1,203,950</u></u>

Equipment	\$ 162,829	\$ 181,510
Less: Accumulated Depreciation	<u>(137,980)</u>	<u>(158,412)</u>
Equipment - Net	<u>\$ 24,849</u>	<u>\$ 23,098</u>

NOTE 5 **CAPITAL LEASE**

In February 2004, the 21-A DAA entered into a long-term capital lease agreement with a financing company to lease an office copier. The terms of the agreement are as follows:

Savin Digital Copier, Model 2555

Loan Amount	\$ 18,000
First Payment Date	February 1, 2004
Monthly Payment	\$ 340
Duration of Loan	63 Months
Interest Rate	6.735%
Total Outstanding at 12/31/07	\$ 5,497

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participates in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's

gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7 **DEFERRED INCOME**

Deferred income totaling \$206,102 at December 31, 2007 consist of 2008 and 2009 sponsorship revenue totaling \$180,000, and 2008 facility rental revenue received in 2007 totaling \$26,102.

NOTE 8 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 21-A DAA Board of Directors
1	Chief Executive Officer, 21-A DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA

MANAGEMENT REPORT #08-017

YEAR ENDED DECEMBER 31, 2007

21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Harvey Hunter, CPA

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#08-017

TABLE OF CONTENTS

	<u>PAGE</u>
MANAGEMENT LETTER.....	1
REPORTABLE CONDITIONS	3
Board Member Concert Ticket Administration	3
Sponsorship Agreements.....	3
Approval for Long Term Contracts.....	4
Collateralization of Excess Funds	4
NON-REPORTABLE CONDITIONS	5
Accounting for Fixed Assets	5
Compensated Leave Liability.....	5
Standard Agreements	6
Cash Receipts	7
Independent Contractor	7
Temporary Employee.....	7
Credential/Courtesy Pass	8
Carnival Revenue	8
DISTRICT AGRICULTURAL ASSOCIATION’S RESPONSE.....	9
CDFA EVALUATION OF RESPONSE.....	12
DISPOSITION OF AUDIT RESULTS.....	13
REPORT DISTRIBUTION	14



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Don Farnesi President
Board of Directors
21-A DAA, Madera District Fair
1850 West Cleveland Avenue
Madera, California 93637

In planning and performing our audit of the financial statements of the 21-A District Agricultural Association (DAA), Madera District Fair, Madera, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Madera District Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 21-A DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 21-A DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 21-A DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 21-A DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 21-A DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 21-A DAA and compliance with state laws and regulations, we identified four areas with reportable conditions that are considered weaknesses in the Fair's operations: board member concert ticket administration, sponsorship agreements, approval for long term contracts, and collateralization of excess funds. We have provided six recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 21-A DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

BOARD MEMBER CONCERT TICKET ADMINISTRATION

The Fair issued 252 free concert tickets to current Board members totaling approximately \$6,300 in value. Each Board member received fourteen tickets for each of the two paid concert events. As a result, each Board member received a total of twenty-eight tickets totaling approximately \$700 in value. In addition, the Fair does not maintain a sign-in sheet for concert seating that is free to the Board and Board invitees indicating who received the benefit of the free concert. According to the policy of Fairs & Expositions (F&E), free passes to state-sponsored entertainment events are prohibited. The Fair should be cautioned that, if there is not a legitimate business purpose, distributions of this nature may be deemed a gift of public funds according to the State Constitution.

Recommendation

1. *We recommend the Fair visit the issue with the Attorney General's Office to ensure the Fair Board is in compliance with the law.*

SPONSORSHIP AGREEMENTS

An examination of sponsorship agreements revealed the following exceptions:

- a. The Fair has no Board-established procedures for entering into sponsorship agreements. According to the F&E approved Contracts Manual, DAAs should have Board-established procedures for entering into sponsorship agreements. This includes procedures for securing sponsorships and sponsorship coordinators, and must be approved by the Board.
- b. The Fair had one sponsorship agreement with terms exceeding \$100,000 and greater than two years that was submitted to F&E for approval after both parties signed the agreement. As a result, the Fair entered into the agreement prior to notification of F&E review. In addition, the agreement was signed 168 days after the initial date of the multi-year agreement resulting in services performed prior to a signed agreement. Also, the Fair did not record a receivable and deferred income totaling \$180,000 for the two remaining years (2008 & 2009) of the sponsorship agreement.
- c. The Fair did not prepare a brief description in memo form why it is in the best interest of the DAA and the State for entering into the proposed sponsorship agreement with terms in excess of \$100,000 and greater than two years. This form is to be submitted to F&E for review to determine whether or not the terms are in the best interest of the DAA and the State.

Recommendations

2. *The Fair should establish Board- approved procedures for entering into sponsorship agreements.*

3. *The Fair should submit to F&E for approval when required, all proposed sponsorship agreements prior to entering into the agreement. In addition, agreements should be signed prior to services being performed. Also, a receivable should be established for agreements entered into but monies not yet received and deferred income recorded when unearned.*
4. *The Fair should prepare and submit to F&E for review, a brief description in memo form proposed sponsorship agreements when required prior to entering into the agreement.*

APPROVAL FOR LONG TERM CONTRACTS

There was no evidence that multi-year interim revenue contracts exceeding a five year term (including all options to renew) were pre-approved by F&E. We identified two contracts (flea market and motorized racing) that were not pre-approved. According to the F&E Contracts Manual, if a contract exceeds a five year term, pre-approval from F&E must be requested in writing and approved in writing by F&E prior to execution of the contract.

Recommendation

5. *The Fair should ensure that all multi-year interim revenue contracts exceeding a five year term (including all options to renew) are pre-approved by F&E.*

COLLATERALIZATION OF EXCESS FUNDS

Operating bank balances exceeded \$100,000 every month during 2007 without proper collateralization. The Federal Deposit Insurance Corporation (FDIC) insures accounts at local institutions up to \$100,000. According to the Accounting Procedures Manual (APM), if the fair elects to invest funds in a local financial institution rather than in the state-administered LAIF, it is the fair's responsibility to ensure that deposited funds in excess of \$100,000 are collateralized in accordance with Government Code § 16520-16522. Banks which hold amounts in excess of the FDIC limit must deposit securities in the amount of 110% of the uninsured balance with the State Treasury. This is a prior audit finding.

Recommendation

6. *The Fair should comply with Government Code § 16520-16522 and ensure that amounts in excess of \$100,000 in any one bank account are properly collateralized.*

NON-REPORTABLE CONDITIONS

ACCOUNTING FOR FIXED ASSETS

An examination of the fixed asset records revealed the following exceptions:

- a. The Fair did not prepare the Standard 152, Property Survey Report, for the trade-in of a forklift totaling \$13,484. According to the APM, whenever property is deemed obsolete or is sold, discarded, traded in, stolen, or destroyed, a property survey report must be completed and submitted to F&E for approval prior to adjustments being made to the property and general ledgers.
- b. The Fair failed to record the disposal of a vehicle in a timely manner. The Fair disposed of a pick-up truck through the DGS/Fleet Administration in March 2006, but did not record the disposal until October 2007, nineteen months later.
- c. The Fair did not maintain a current list of non-monetary items to control possible future loss or theft of such items. Non-monetary items are expendable property, which cost less than \$5,000
- d. The Fair did not identify all moveable items owned by the Madera District Fair with a permanent stamp or property identification tags. In accordance with F&E requirements, all property, regardless of whether capitalized or expensed, will be controlled, identified, and tagged.

Recommendations

The Fair should ensure that a Standard 152, Property Survey Report, is completed when required and submitted to F&E for approval prior to removing the asset from the property and general ledgers.

The Fair should ensure that accounting transactions are properly recorded in a timely manner to ensure accuracy of accounting records.

The Fair should ensure that a current non-monetary list is maintained to prevent possible future loss or theft of such items.

The Fair should ensure that all moveable items owned by the Fair are identified with a permanent stamp or property identification tag.

COMPENSATED LEAVE LIABILITY

An examination of the compensated leave liability records revealed the following exceptions:

- a. The Fair allowed one permanent employee to exceed the maximum number of accumulated annual leave hours allowed to carryover at year-end of 640 hours. At year-end, the employee had an accumulated annual leave balance of 731 hours.
- b. Two permanent employees donated ten hours each to an employee without completing Form 13-103, Catastrophic Leave Donation Form. Employees or their

Management Report #08-017

Madera, California

designees must submit a written request to the Human Resources Branch (HRB), Classification Analysis Unit (CAU). The CAU analyst will review the request and notify the employee's program supervisor of approval or denial.

Recommendations

The Fair should reduce their compensated leave liability by encouraging the employee to take time off, thereby reducing their annual leave balance.

The Fair should follow the policy of the State of California and the CDFA to establish a catastrophic leave bank by completing a Form 13-103, Catastrophic Leave Donation Form, and submitting to the HRB CAU for approval.

STANDARD AGREEMENTS

An examination of standard agreements revealed the following exceptions:

- a. The Fair did not prepare a Standard 204, Payee Data Record, form for any business/individuals receiving payment from the State of California (DAA's). In addition, there was no evidence of federal backup withholdings. If no Standard 204 is prepared or accurately completed, federal backup withholdings is required to be withheld.
- b. The Fair did not always submit non-hazardous contracts between \$15,000 and \$75,000 to CFSA for approval when required. We noted five non-hazardous contracts not submitted to CFSA for approval.
- c. The Fair did not always prepare a Standard 215 (Std 215) Agreement Summary for each Standard 213 (Std 213) Agreement. We noted five Std 213 Agreements without an accompanying Std 215 Agreement Summary.
- d. The Fair did not prepare a written justification explaining why multi-year contracts were in the best interest of the Fair. According to the contract manual, if a contract is for more than one year or contains options to renew which, if exercised, would make the contract multi-year, a written justification explaining why multi-year contracts are in the best interest of the DAA must be included in the contract file and in the contract package if the contract requires F&E approval.

Recommendations

The Fair should ensure that a Std 204, Payee Data Record, is prepared for any business/individuals receiving payment from the State of California (DAA's). If no Std 204 is prepared or accurately completed, federal backup withholding is required to be withheld.

The Fair should ensure that all non-hazardous contracts between \$15,000 and \$75,000 are submitted to CFSA for approval.

The Fair should ensure that a Std 215 Agreement Summary is prepared for each Std 213 Agreement.

The Fair should ensure that a written justification explaining why multi-year contracts are in the best interest of the Fair is prepared for all multi-year contracts.

CASH RECEIPTS

An examination of cash receipts revealed the following exceptions:

- a. The Fair allowed the transportation of coin and currency to the bank in excess of \$3,000 by a single employee. According to the State Administrative Manual (SAM), a single employee will not transport coin and currency in excess of \$3,000 at one time for deposit or to replenish ATM machines on the fairgrounds.
- b. The Fair did not always deposit cash receipts in excess of \$500 cash or \$5,000 cash/check the next business day. We identified seven instances during the month of September where deposits were made two days after receipt.

Recommendations

The Fair should follow the SAM and ensure that no coin and currency in excess of \$3,000 is transported by a single employee.

The Fair should make every possible effort to deposit cash receipts in excess of \$500 cash or \$5,000 cash/check the next business day.

INDEPENDENT CONTRACTOR

The Fair did not prepare and submit the DE 542, Report of Independent Contractors, to the Employment Development Department (EDD) as required. Information contained on the form is used to assist the state and county agencies in locating parents who are delinquent in their child support obligations. This report is to be submitted to the EDD within 20 days of paying/contracting for \$600 or more in services received by the DAA.

Recommendation

The Fair should ensure that the DE 542, Report of Independent Contractors, is prepared and submitted to the EDD within 20 days of paying/contracting for \$600 or more in services.

TEMPORARY EMPLOYEE

An examination of temporary employee records revealed the following exceptions:

- a. The Fair did not prepare and submit the DE 34, Report of New Employee(s), to the EDD New Employee Registry as required. Federal law requires all employers to report to the EDD within 20 days of their start-of-work date.
- b. The Fair did not always adequately complete the Employment Eligibility Verification Form (I-9). We noted several instances of incomplete information and no appropriate signatures by either the employee or employer.

Recommendations

The Fair should ensure that the DE 34, Report of New Employee(s), is prepared and submitted to the EDD New Employee Registry within 20 days of their start-of-work date.

The Fair should ensure that the I-9 Form is properly completed for all employees.

CREDENTIAL/COURTESY PASS

An examination of credential/courtesy admission pass records revealed the following exceptions:

- a. The Fair incorrectly gave employees courtesy passes instead of credential passes. In addition, some Fair vendors may have incorrectly received credential passes instead of courtesy passes. According to Food and Agriculture Code § 3024, credential admissions may be issued to employees of the fair.
- b. Credential and courtesy pass logs do not always contain sufficient information to determine appropriateness of issuance.

Recommendations

The Fair should ensure that recipients of credential and courtesy passes receive the appropriate pass.

The Fair should ensure that credential and courtesy pass logs contain sufficient information to determine appropriateness of issuance.

CARNIVAL REVENUE

The Fair does not receive adequate documentation to substantiate on-site gross revenue reported by the carnival contractor. We noted that 2007 on-site gross revenue reported by the carnival contractor totaling \$241,909 increased twenty cents over that reported in 2006, which would appear doubtful considering the large revenue amount reported. Although Ticket Sales Spot Summary Report prepared by the carnival contractor supports the general ledger amount, these reports may not be system generated and therefore not adequate to support reported amounts.

Recommendation

The Fair should ascertain from the carnival contractor whether adequate supporting documentation exists to substantiate amounts contained within the Ticket Sales Spot Summary Report. Preferably system generated documentation, not manually prepared reports, should be obtained.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



November 24, 2008

Ron Shackelford, CPA
Chief, Audit office
Department of Food & Agriculture
1220 N Street, Room 344
Sacramento, CA 95814

SUBJECT: MANAGEMENT REPORT #08-017

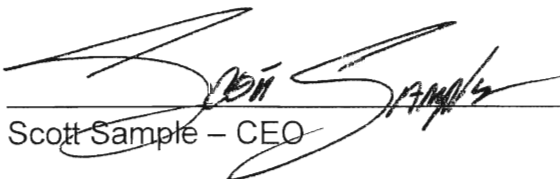
Dear Mr. Shackelford:

Attached is my response to the six (6) reportable conditions that you outlined in your 2008 Audit Report for the year ended December 31, 2007.

As you can see by the attached, we have and/or will be implementing the reportable conditions.

If you have any questions, please do not hesitate to call me at (559) 674-8511.

Sincerely,


Scott Sample – CEO


Don Farnesi – Board President

Cc: Division of Fairs & Expositions

2008 AUDIT

REPORTABLE CONDITIONS

BOARD MEMBER CONCERT TICKET ADMINISTRATION

1. The Fair will visit the issue of free concert tickets to the Board members with the Attorney General's Office to ensure that we are in compliance with the law.

SPONSORSHIP AGREEMENTS

2. Since this year's audit, the Madera District Fair has adopted a sponsorship policy.
3. The Fair will send to F&E for approval proposed sponsorship agreements prior to entering into the agreement. Also for over one year sponsorship agreements, the money will be put into deferred income.
4. The Fair will send to F&E for review a brief description in memo form of proposed sponsorship agreements when required prior to entering into the agreement.

APPROVAL FOR LONG TERM CONTRACTS

5. The Fair will ensure that all multi-year interim revenue contracts that exceed a five year term are pre-approved by F&E.

COLLATERALIZATION OF EXCESS FUNDS

6. This year we changed the Fair's money to County Bank. The Madera District Fair is insured for \$900,000.00.

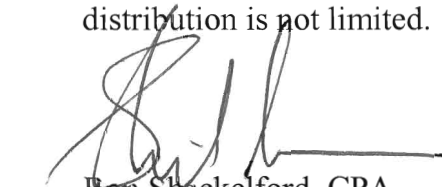
CDDA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 21-A DAA, Madera District Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between May 12, 2008 and May 29, 2008. My staff met with management on May 29, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



for Ron Shackelford, CPA
Chief, Audit Office

May 29, 2008

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 21-A DAA Board of Directors
1	Chief Executive Officer, 21-A DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office